REPORT OF

COUNTY EMPLOYEES' RETIREMENT FUND

DECEMBER 31, 2006 and 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
County Employees' Retirement Fund

We have audited the accompanying statements of plan net assets of the County Employees' Retirement Fund as of December 31, 2006, and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of County Employees' Retirement Fund as of December 31, 2006 and 2005, and the changes in plan net assets for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis, and the schedules of funding progress and employer contributions are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included on pages 20-21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Williams-Keepers LLC

May 21, 2007

COUNTY EMPLOYEES' RETIREMENT FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the County Employees' Retirement Fund's (CERF) financial performance provides an introduction to the financial statements of CERF for the year ended December 31, 2006. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with the financial statements.

Required Financial Statements

CERF, a public employees' retirement plan, prepares its financial statements on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Statement of Plan Net Assets includes all of CERF's assets and liabilities and provides information about the nature and amount of investments available to satisfy the pension benefits of the plan. All additions to and deductions from the net assets held in trust for pension benefits are accounted for in the Statement of Changes in Plan Net Assets. This statement measures CERF's success over the past year in increasing the net assets available for pension benefits.

Financial Analysis of CERF

While the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets measure the value of plan net assets and the changes to them, another important factor needs to be considered in order to determine the financial health of CERF. That additional factor is the plan's funded status. In 2006, additions to net assets of $50,634,437 exceeded deductions of $15,310,047 by $35,324,390. This net increase brought the Plan's net asset base to $233,046,479. For actuarial calculations, CERF's actuary uses the market value of assets as of the end of a plan year to determine the actuarial value of assets. As of December 31, 2006, the actuarial value of assets was $233,046,479. The aggregate actuarial liability for CERF was $298,184,874. The plan is not 100% funded at present, as it is a relatively new plan created by legislation in August, 1994 and the CERF plan granted past service credit. Our funded position has steadily improved since inception and the actuary expects it to continue to improve. On an actuarial basis, the assets held currently fund 78% of this liability. This is an increase from the funding ratio of 73% for 2005. If a ratio of the actuarial value of assets to the actuarial present value of accrued benefits is used, the funding ratio increases from 84% as of December 31, 2005, to 91% as of December 31, 2006.

Plan Net Assets

To begin the financial analysis, a summary of CERF's Plan Net Assets is as follows:

Condensed Statements of Plan Net Assets
(in $000's)

	2006	2005	Dollar Change	Percent Change
Cash and cash equivalents	$ 1,263	$ 1,014	$ 249	25%
Receivables	3,537	3,241	296	9%
Investments	225,725	190,373	35,352	19%
Invested securities lending collateral	65,800	-	65,800	
Other assets	8	2	6	300%
Capital assets, net	4,266	4,625	(359)	-8%
Total assets	300,599	199,255	101,344	51%
Liabilities	67,549	1,533	66,016	4306%
Total plan net assets	$ 233,050	$ 197,722	$ 35,328	18%

As the above table shows, plan net assets increased by $35,324,390, or 18%, in 2006. This increase reflects the investment gains experienced, as well as the additional income earned through securities lending, in 2006.

The following table presents the investment allocation for 2006 and 2005, and CERF's target allocation for 2006. CERF considers its land and administrative office building to be part of its real estate investment portfolio, whereas they are classified as capital assets in the financial statements. These percentages are based on including the land and building at cost with no depreciation, and classifying temporarily uninvested cash in each investment fund as part of the fund's overall category whereas such cash is classified as cash equivalents in the financial statements. Otherwise these percentages may reflect some minor differences in classifications among categories as compared to the classifications used for investments in the accompanying financial statements.

	2006	2005	Target
Bonds	28.4%	27.6%	30.0%
U. S. Equities	42.4%	40.0%	42.5%
International Equities	15.4%	14.5%	12.5%
Equity Long/Short	8.6%	9.6%	10.0%
Real Estate	4.5%	4.7%	5.0%
Cash	0.7%	3.6%	*

*The investment policy permits up to 3% of the portfolio to be in cash and cash equivalents.

The underweighting of Bonds was due to poor bond return in 2006. In addition, CERF was accumulating additional funds to invest with its Equity Long/Short manager in early 2007, in place of making an additional investment in bonds near the end of 2006. There was an overweighting in International Equities at year end due to that allocation's excellent performance in 2006, and since CERF is positioning to increase its target allocation in International Equities in the near future, no immediate reduction in that allocation seemed warranted.

Condensed Statements of Plan Net Assets
(in $000's)

	2005	2004	Dollar Change	Percent Change
Cash and cash equivalents	$ 1,014	$ 63	$ 951	1510%
Receivables	3,241	3,221	20	1%
Investments	190,373	174,333	16,040	9%
Other assets	2	-	2	
Capital assets, net	4,625	2,802	1,823	65%
Total assets	199,255	180,419	18,836	10%
Liabilities	1,533	1,921	(388)	-20%
Total plan net assets	$ 197,722	$ 178,498	$ 19,224	11%

As the above table shows, plan net assets increased by $19,224,543, or 11%, in 2005. This increase reflects the investment gains experienced in 2005, as well as the addition of the CERF administrative office building which was completed in mid-2005.

The following table presents the investment allocation for 2005 and 2004, and CERF's target allocation for 2005, and reflects including CERF's land and administrative office building as part of the real estate portfolio, and certain other classification differences from the financial statements, as previously explained in the 2006 and 2005 comparison schedule:

	2005	2004	Target
Bonds	27.6%	29.0%	30.0%
U. S. Equities	40.0%	44.2%	42.5%
International Equities	14.5%	14.8%	12.5%
Equity Long/Short	9.6%	9.1%	10.0%
Real Estate	4.7%	0.0%	5.0%
Cash	3.6%	2.9%	*

*The investment policy permits up to 3% of the portfolio to be in cash and cash equivalents.

The underweighting of Bonds and U. S. Equities in 2005 was attributable to poor bond return and to building a reserve to fund the ING real estate investment in the fourth quarter.

Condensed Statements of Changes in Plan Net Assets
(in $000's)

	2006	2005	Dollar Change	Percent Change
Additions:				
Contributions:				
Counties	$ 19,484	$ 18,832	$ 652	3%
Member, regular	5,889	5,003	886	18%
Members, purchase of prior service	64	58	6	10%
Total contributions	25,437	23,893	1,544	6%
Net investment income	25,133	9,340	15,793	169%
Net securities lending income	64	-	64	
Total additions	50,634	33,233	17,401	52%
Deductions:				
Benefits	$ 11,052	$ 9,910	$ 1,142	12%
Refunds	1,293	1,176	117	10%
Defined contribution plan match	1,070	979	91	9%
Administrative expenses	1,895	1,943	(48)	-2%
Total deductions	15,310	14,008	1,302	9%
Net increase in plan net assets	$ 35,324	$ 19,225	$ 16,099	84%

	2005	2004	Dollar Change	Percent Change
Additions:				
Contributions:				
Counties	$ 18,832	$ 18,643	$ 189	1%
Member, regular	5,003	3,893	$ 1,110	29%
Members, purchase of prior service	58	95	$ (37)	-39%
Total contributions	23,893	22,631	1,262	6%
Net investment income	9,340	17,767	(8,427)	-47%
Total additions	33,233	40,398	(7,165)	-18%
Deductions:				
Benefits	$ 9,910	$ 8,777	$ 1,133	13%
Refunds	1,176	660	516	78%
Defined contribution plan match	979	864	115	13%
Administrative expenses	1,943	1,951	(8)	0%
Total deductions	14,008	12,252	1,756	14%
Net increase (decrease) in plan net assets	$ 19,225	$ 28,146	$ (8,921)	-32%

Additions

Additions needed to fund benefits are accumulated through contributions and returns on invested funds. Contributions for 2006 totaled $25,436,571 which was 6% above those received in 2005. Contributions for 2005 totaled $23,892,465 which was 6% above those received in 2004. Due to the legislation which took effect in 2003, as new employees continue to replace employees hired prior to February 25, 2002, employee contributions are expected to continue to rise.

The $15,792,790 increase in net investment income in 2006, as compared to 2005, is attributable to the impressive performance of CERF's equity funds in 2006, and, in particular, its international equities. Consequently, the total rate of return for the portfolio in 2006 was 13.3%, as compared to 5.8% in 2005. CERF's Large Cap U.S. Equities returned 15.1%, as compared to 15.8% for the S & P 500 Index. The Small/Mid Cap U.S. Equities returned 16.5%, as compared to 16.2% for the Russell 2500 Index. The fixed income portfolio returned 5.2%, as compared to 4.3% for the Lehman Brothers Aggregate Index. Our international stock portfolio returned 28.8%, as compared to 26.9% for the MSCI EAFE Index. The Equity Long/Short position returned 6.2%, as compared to 11.7% for the HFRI Equity Hedge Index. The Real Estate portfolio consists of an investment in core real estate, as well as CERF's office building. In 2006, the core real estate investment returned 15%, as compared to the NCREIF Property Index return of 16.6%. The return on investment in CERF's office building will be recognized as periodic appraisals are conducted, which are anticipated to be done every five years.

The $8,426,454 decrease in net investment income in 2005, as compared to 2004, is attributable to the poor performance of the markets in 2005. Consequently, the total rate of return for the portfolio in 2005 was 5.8%, as compared to 12.3% in 2004. CERF's Large Cap U.S. Equities returned 6.3%, as compared to 4.9% for the S & P 500 Index. The Small/Mid Cap U.S. Equities returned 4.2%, as compared to 8.1% for the Russell 2500 Index. The fixed income portfolio returned 2.2%, as compared to 2.4% for the Lehman Brothers Aggregate Index. Our international stock portfolio returned 12.2%, as compared to 14% for the MSCI EAFE Index. The Equity Long/Short position returned 8.5%, as compared to 10.7% for the HFRI Equity Hedge Index. Beginning in October 2005, CERF was able to invest in the ING – Clarion Lion Properties Fund, which is a core real estate investment. For the 4th quarter of 2005, it returned 4.1% as compared to the NCREIF Property Index return of 5.4%.

Beginning in January 2006, the Board of Directors authorized CERF to enter into a Securities Lending Agreement with Key Bank, thus allowing CERF to lend its securities to broker-dealers, which provides additional income to CERF. Net securities lending income for 2006 was $64,646.

When comparing returns it is important to remember that as a fairly new pension fund, created by legislation in August 1994, CERF's investment program has a very long time horizon. Some of the longer-term results for the total fund are:

Period	Annualized Returns	Compared to Other Public Funds
One year	13.3%	52nd Percentile
Three years	10.4%	50th Percentile
Five Years	8.6%	48th Percentile
Ten Years	10.3%	5th Percentile

These annualized return results compare favorably to the assumed rate of return of 8% and the investment policy benchmark of 9%.

Deductions

The expenses paid by CERF include benefit payments, refunds, and administrative expenses.

Expenses for 2006 totaled $15,310,047, an increase of $1,301,695 over 2005. The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants to 2,185 in 2006 from 2,029 in 2005, as well as an increase in the amount of the average benefit. The $116,918 increase in refunds in 2006 is primarily due to the refunding of larger amounts of contributions being made by employees hired after February 24, 2002 as these employees terminate, non-vested.

Expenses for 2005 totaled $14,008,352, an increase of $1,756,982 over 2004. The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants to 2,029 in 2005 from 1,806 in 2004, as well as an increase in the amount of the average benefit. The $516,838 increase in refunds in 2005 is primarily due to the refunding of larger amounts of contributions being made by employees hired after February 24, 2002 as these employees terminate, non-vested.

Economic Outlook

CERF's estimated investment return for the three months ended March 31, 2007, is approximately 2.8%. CERF's total investments as of March 31, 2007, are approximately $240,248,000, an increase of $9,905,000 since December 31, 2006, due to appreciable investment return and plan contributions during the first quarter of 2007.

The Board of Directors continues to monitor the funded liability status of the CERF Fund, as its goal is to make benefit enhancements for its membership at such time it is legally able. In 2005, the Legislature passed legislation directing CERF to make no adjustments until the fund has achieved a funded ratio of assets to the actuarial accrued liability equaling at least 80%. (§50.1031, RSMo.)

The coming years 2007 and 2008 will be transitional years for CERF, as new investment managers will be brought on board and a new asset allocation is implemented.

COUNTY EMPLOYEES' RETIREMENT FUND

STATEMENTS OF PLAN NET ASSETS
December 31, 2006 and 2005

	2006	2005
ASSETS		
Cash	$ 1,263,491	$ 1,014,340
Receivables:		
Member contributions	421,319	316,833
Member prior service contributions	119,424	133,616
County contributions	2,260,123	2,230,121
Accrued interest and dividends	735,833	560,193
Total receivables	3,536,699	3,240,763
Investments, at fair value:		
U.S. Government and agencies	23,205,388	25,164,351
Foreign Bonds	1,816,717	256,407
Corporate bonds	33,275,876	20,564,734
Domestic stocks	93,150,734	78,056,620
International equities funds	35,548,861	28,243,279
Hedge funds	19,915,988	18,751,041
Real estate fund	6,342,444	5,121,510
Cash equivalents	12,465,342	14,215,255
Total investments	225,721,350	190,373,197
Invested securities lending collateral	65,799,630	-
Other assets	8,419	2,001
Capital assets, net of accumulated depreciation of $1,429,099 and $1,120,537	4,265,600	4,624,852
Total assets	300,595,189	199,255,153
LIABILITIES		
Accounts payable	399,548	306,865
Accrued defined contribution plan contribution	1,070,115	978,612
Other accrued expenses	130,392	96,110
Deferred revenue	149,025	151,477
Collateral for securities on loan	65,799,630	-
Total liabilities	67,548,710	1,533,064
Net assets held in trust for pension benefits	$ 233,046,479	$ 197,722,089

(A schedule of funding progress is presented on page 19)

The notes to financial statements are an integral part of these statements

COUNTY EMPLOYEES' RETIREMENT FUND

STATEMENTS OF CHANGES IN PLAN NET ASSETS
For the Years Ended December 31, 2006 and 2005

	2006	2005
ADDITIONS:		
Contributions:		
Counties	$ 19,483,700	$ 18,831,892
Members, regular	5,888,992	5,003,001
Members, purchase of prior service	63,879	57,572
Total contributions	25,436,571	23,892,465
Investment income:		
Net appreciation in fair value of investments	20,646,101	5,918,877
Interest	3,464,188	2,593,677
Dividends	2,250,722	1,926,309
Total investment income	26,361,011	10,438,863
Less investment expenses	1,227,791	1,098,433
Net investment income	25,133,220	9,340,430
Securities lending income	3,824,237	-
Less expenses	3,759,591	-
Net securities lending income	64,646	-
Total additions	50,634,437	33,232,895
DEDUCTIONS:		
Benefits	11,051,485	9,909,963
Refunds of member contributions	1,293,448	1,176,530
Defined contribution plan matching contribution	1,070,115	978,612
Administrative expense	1,894,999	1,943,247
Total deductions	15,310,047	14,008,352
Net increase	35,324,390	19,224,543
Net assets held in trust for pension benefits		
Beginning of year	197,722,089	178,497,546
End of year	$ 233,046,479	$ 197,722,089

The notes to financial statements are an integral part of these statements

COUNTY EMPLOYEES' RETIREMENT FUND

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The County Employees' Retirement Fund financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable in accordance with the terms of the plan. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Method Used to Value Investments: Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Bonds and stocks traded on a national or international exchange are valued at the last reported sales price at current exchange rates as reported by independent pricing services. The values of real estate included in the real estate fund investment are based upon annual independent appraisals, updated quarterly, as provided by the fund manager. Investments that do not have an established market are reported at estimated fair value as provided by investment or fund managers.

Property and Equipment: Property and equipment, including computer software programs, are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated lives of the assets of from three to fifty years.

Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

2. PLAN DESCRIPTION

The County Employees' Retirement Fund was established by an act of the Missouri General Assembly effective August 28, 1994. Laws governing the retirement fund are found in Sections 50.1000-50.1300 of the Missouri Revised Statutes (RSMo). The Board of Directors consists of eleven members, nine of whom are county employee participants. Two members, who have no beneficiary interest in the Fund, are appointed by the Governor of Missouri. The Board of Directors has the authority to adopt rules and regulations for administering the system.

The Fund is a mandatory cost-sharing multiple employer retirement system for each county in the state of Missouri, except any city not within a county (which excludes the City of St. Louis) and counties of the first classification with a charter form of government. The Fund covers county elective or appointive officers or employees whose position requires the actual performance of duties not less than 1,000 hours per year; including employees of circuit courts located in a first class, non-charter county which is not participating in the Local Government Employees Retirement System (LAGERS); and does not cover circuit clerks, deputy circuit clerks, county prosecuting attorneys, and county sheriffs. Until January 1, 2000, employees hired before January 1, 2000 could opt out of the system. The Fund is a defined benefit plan providing retirement and death benefits to its members. All benefits vest after 8 years of creditable service. Employees who retire on or after age 62 are entitled to an allowance for life based on the form of payment selected. The normal form of payment is a single life annuity. Optional joint and survivor annuity and 10-year certain and life annuity payments are also offered to members in order to provide benefits to a named survivor annuitant after their death. Employees who have a minimum of 8 years of creditable service may retire with an early retirement benefit and receive a reduced allowance after attaining age 55. Annual cost-of-living adjustments, not to exceed1%, are provided for eligible retirees and survivor annuitants, up to a lifetime maximum of 50% of the initial benefit which the member received upon retirement. Benefit provisions are fixed by state statute and

may be amended only by action of the Missouri Legislature. Administrative expenses for the operation of the Fund are paid out of the funds of the system.

Contributions: Prior to January 1, 2003, participating county employees, except for those who participated in LAGERS, were required to make contributions equal to 2% of gross compensation. Effective January 1, 2003, in addition to the prior contributions requirements, participating county employees hired on or after February 25, 2002 are required to make contributions of 4% if they are in a LAGERS county and contributions of 6% if they are in a non-LAGERS county. If an employee leaves covered employment before attaining 8 years of creditable service, accumulated employee contributions are refunded to the employee. The contribution rate is set by state statute and may be amended only by action of the Missouri Legislature.

In addition, the following fees and penalties prescribed under Missouri law are required to be collected and remitted to the Fund by counties covered by the fund:

* Late fees on filing of personal property tax declarations
* Twenty dollars for each merchants and manufacturers license issued
* Six dollars on each document recorded or filed with county recorders of deeds, with an additional one dollar on each document recorded
* Three sevenths of the fee on delinquent property taxes
* Interest earned on investment of the above collections prior to remittance to the Fund

Members: The Fund members include eligible employees of 111 counties in the State of Missouri. The number of members and benefit recipients served by the system at December 31, 2006 and 2005 were:

	2006	2005
Retirees and beneficiaries receiving benefits	2,264	2,053
Terminated employees entitled to but not yet receiving benefits	1,377	1,333
Current active plan members	10,946	10,808
Total	14,587	14,194

Tax status: The Internal Revenue Service has determined and informed the Fund by letter dated January 16, 2001, that the plan as amended through May 1, 2000 is in a form acceptable under the Internal Revenue Code.

3. DEPOSITS AND INVESTMENTS

Custodial Credit Risk for Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. At December 31, 2006 and 2005, the Fund's bank balances were secured by a combination of federal depository insurance and pledged collateral held in the Fund's name by an agent of the depository bank.

Investments: Funds are invested by outside managers under policies established by the Board of Directors. The Board requires that its investment managers invest the Fund's assets with the care, skill, and diligence a prudent person familiar with such matters acting in a like capacity would use in a similar enterprise with like objectives.

The following table summarizes CERF investments by type at December 31, 2006 and 2005:

	2006	2005
U.S. government and agencies securities	$ 23,205,388	$ 25,164,351
Foreign bonds	1,816,717	256,407
Corporate bonds and notes	33,275,876	20,564,734
Domestic stocks	93,150,734	78,056,620
International equities funds	35,548,861	28,243,279
Hedge funds	19,915,988	18,751,041
Real estate fund	6,342,444	5,121,510
Cash equivalents	12,465,342	14,215,255
Total	$ 225,721,350	$ 190,373,197

The Fund's investment policy permits investments in equity and fixed income (debt) securities and real estate, with guidelines for the percentage of the total for each category and for the type of investments within each category.

With respect to debt securities, the policy permits fixed and variable rate securities issued or guaranteed by the U.S. government, its agencies or instrumentalities; and U.S. government sponsored and other corporation securities. To manage interest rate and credit risks, two investment managers are used for debt securities, each operating under specific guidelines with respect to approved securities, duration, diversification, and minimum quality ratings by Moody's or Standard and Poors.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the option-adjusted methodology. The Fund benchmarks the fixed income portfolio to the Lehman Brothers Aggregate Bond Index. At December 31, 2006, the effective duration of the Lehman Aggregate Bond Index was 4.46 years, whereas, the Fund's fixed income portfolio had an effective duration of 5.04 years. At December 31, 2005, the effective duration of the Lehman Aggregate Bond Index was 4.57 years, whereas, the Fund's fixed income portfolio had an effective duration of 3.91 years. The following table summarizes duration by investment type as of December 31, 2006:

Investment	2006 Fair Value	Effective Duration Rate
U.S. Treasuries	$ 8,092,565	5.67 years
U.S. agencies	2,157,787	1.86 years
U.S. agencies mortgage pool	12,955,036	3.66 years
Commercial mortgage backed securities	7,862,381	4.48 years
Other asset backed securities	4,433,830	1.95 years
U.S. corporate - financial	9,586,928	5.30 years
U.S. corporate - industrial	9,460,149	7.49 years
U.S. corporate - utility	1,932,588	6.78 years
International	1,816,717	2.44 years
Total	$ 58,297,981	

The following table summarizes duration by investment type as of December 31, 2005:

Investment	2005 Fair Value	Effective Duration Rate
U.S. Treasuries	$ 11,850,516	6.01 years
U.S. agencies	3,448,096	3.35 years
U.S. agencies mortgage pool	9,944,833	3.6 years
Commercial mortgage backed securities	4,508,248	5.26 years
Other asset backed securities	2,670,568	1.62 years
U.S. corporate - financial	4,578,551	4.95 years
U.S. corporate - industrial	7,219,200	5.64 years
U.S. corporate - utility	1,414,887	7.27 years
International	256,407	4.77 years
Total	$ 45,891,306	

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Fund. The Fund's debt securities investments by credit rating category as of December 31, 2006 are presented in the following table.

Credit Rating Level	Total	U.S. Treasuries and Direct-Guaranteed Agencies	U.S. Sponsored Agencies	U.S. Sponsored Agencies - Mortgage Pools	Commercial Mortgage Backed Securties	Other Commercial Asset backed securites	U.S. Corporate Financial	U.S. Corporate Industrial	U.S. Corporate Utility	Foreign
Guaranteed	$ 8,092,565	$ 8,092,565	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Aaa	29,260,172	-	2,157,787	12,955,036	7,862,381	4,433,830	434,569	-	-	1,416,569
Aa3	2,274,900	-	-	-	-	-	1,974,338	300,562	-	-
A1	2,909,205	-	-	-	-	-	2,605,936	303,269	-	-
A2	2,335,512	-	-	-	-	-	1,747,702	204,015	383,795	-
A3	1,171,166	-	-	-	-	-	839,669	88,295	243,202	-
Baa1	1,574,047	-	-	-	-	-	70,407	1,448,386	55,254	-
Baa2	3,974,358	-	-	-	-	-	1,354,215	1,644,132	781,138	194,873
Baa3	2,647,822	-	-	-	-	-	560,092	1,732,656	355,074	-
Ba1	1,321,133	-	-	-	-	-	-	1,207,008	114,125	-
Ba2	408,569	-	-	-	-	-	-	408,569	-	-
Ba3	708,151	-	-	-	-	-	-	708,151	-	-
B1	850,987	-	-	-	-	-	-	850,987	-	-
B2	558,559	-	-	-	-	-	-	353,284	-	205,275
B3	210,835	-	-	-	-	-	-	210,835	-	-
Total	$ 58,297,981	$ 8,092,565	$ 2,157,787	$ 12,955,036	$ 7,862,381	$ 4,433,830	$ 9,586,928	$ 9,460,149	$ 1,932,588	$ 1,816,717

The Fund's debt securities investments by credit rating category as of December 31, 2005 are presented in the following table.

Credit Rating Level	Total	U.S. Treasuries and Direct-Guaranteed Agencies	U.S. Sponsored Agencies	U.S. Sponsored Agencies - Mortgage Pools	Commercial Mortgage Backed Securties	Other Commercial Asset backed securites	U.S. Corporate - Financial	U.S. Corporate - Industrial	U.S. Corporate - Utility	Foreign
Guaranteed	$ 11,850,516	$ 11,850,516	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Aaa	21,082,274	-	3,448,096	9,944,833	4,508,248	2,670,568	400,660	-	-	109,869
Aa1	284,586	-	-	-	-	-	-	284,586	-	-
Aa3	923,127	-	-	-	-	-	923,127	-	-	-
A	236,829	-	-	-	-	-	236,829	-	-	-
A1	799,554	-	-	-	-	-	799,554	-	-	-
A2	325,229	-	-	-	-	-	130,530	194,699	-	-
A3	654,307	-	-	-	-	-	126,350	527,957	-	-
Baa1	1,395,343	-	-	-	-	-	167,739	874,561	353,043	-
Baa2	2,501,838	-	-	-	-	-	662,851	1,077,752	614,697	146,538
Baa3	2,791,871	-	-	-	-	-	719,526	1,740,423	331,922	-
Ba1	1,005,965	-	-	-	-	-	287,785	602,955	115,225	-
Ba2	837,445	-	-	-	-	-	123,600	713,845	-	-
Ba3	839,764	-	-	-	-	-	-	839,764	-	-
B1	241,395	-	-	-	-	-	-	241,395	-	-
B3	86,175	-	-	-	-	-	-	86,175	-	-
BBB	35,088	-	-	-	-	-	-	35,088	-	-
Total	$ 45,891,306	$ 11,850,516	$ 3,448,096	$ 9,944,833	$ 4,508,248	$ 2,670,568	$ 4,578,551	$ 7,219,200	$ 1,414,887	$ 256,407

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a Fund's investment in a single issuer. The Fund's investment guidelines require diversified portfolios with no single issue, excluding U.S. government securities, being greater than 5% of each manager's total portfolio value at cost or 7% at market value. GASB 40 requires disclosure of any single issue, excluding U.S. government securities, that exceeds 5% of the total investment portfolio. As of December 31, 2006 and 2005, no single issue exceeded the 5% threshold.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The following is a summary of the Fund's international equities funds showing the exposure to foreign currency risk as of December 31, 2006 and 2005:

	2006	2005
Australian Dollar	$ 41,151	$ -
Bermuda Dollar	545,589	-
Brazilian Real	718,095	736,331
Canadian Dollar	921,663	535,133
China Yuan Renminbi	153,382	49,161
Denmark Kroner	7,482	1,490
Euro	13,457,326	10,502,882
Hong Kong Dollar	104,753	39,310
Indonesian Rupiah	1,871	-
Japanese Yen	6,799,208	5,535,471
Mexico Peso	422,463	355,337
New Zealand Dollar	272,795	313,017
Norwegian Krone	29,928	14,897
Russian Ruble	56,115	49,161
Singapore Dollar	900,322	931,724
South African Rand	11,223	-
South Korean Won	1,693,994	1,526,292
Swiss Franc	2,115,688	1,645,986
Taiwan New Dollars	541,844	419,757
United Kingdom Pound	5,837,918	4,300,485
Venezuelan Bolivar	148,185	104,339
United States Dollar	767,866	1,182,506
Total Foreign Equities	$ 35,548,861	$ 28,243,279

Derivatives: Derivatives are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. Derivatives often require little or no initial investment, but involve off-balance sheet risk. The Fund from time to time enters into various transactions involving derivatives, primarily to enhance the performance and reduce the volatility of its portfolio. Derivatives held by the Fund include mortgage-backed to-be-announced (TBA) forward contracts and collateralized mortgage obligations (CMOs). TBA forward contracts represent commitments to purchase mortgage-backed securities for delivery at an agreed-upon specific future date, however, the specific securities have not yet been issued. CERF invests the approximate value of TBA contracts in cash equivalent securities scheduled to mature on or near the TBA settlement date. The fair value of TBA contracts, which are not included in the carrying value of investments, totaled $5,546,451 and $8,424,025 at December 31, 2006 and 2005, respectively. CMOs are a type of mortgage-backed security that represent claims to specific cash flows from large pools of home mortgages. The fair value of CMOs, which are included in the schedules of investments by type, duration and credit risk in this note, totaled $541,268 and $985,940 at December 31, 2006 and 2005, respectively. TBAs and CMOs involve market risk resulting from interest rate fluctuations and, in the case of CMOs, changes in the timing of mortgage prepayments.

Securities Lending Program: The Fund participates in a securities lending program administered by KeyBank National Association (the custodian). Under this program, the Board of Directors has authorized the Fund to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. At the initiation of a loan, borrowers are required to provide cash collateral at 102% of

the market value of loaned securities. This cash collateral is then invested in certain qualified investments as detailed in the securities lending agreement. There are no restrictions on the amount of securities that can be lent at one time. The Fund does not have the ability to pledge or sell collateral securities unless the borrower defaults. There were no losses during the year resulting from a default of the borrowers or custodial bank.

The maturities of the investments made with cash collateral do not generally match the maturity of security loans. The Fund and the borrowers each maintained the right to terminate all security lending transactions on demand, although the average term of these loans was 1 day at December 31, 2006. The weighted average duration of collateral investments at December 31, 2006 was 4.8 days.

As of December 31, 2006, the fair market value, including accrued interest, of securities on loan was $63,657,679. The fair value of investments made with the associated collateral totaling $65,799,630. Net security lending income was $64,646 for the fiscal year. At year end, the Fund had no credit risk exposure to borrowers because the fair value of collateral held exceeded the market value of securities lent.

Securities lent as of December 31, 2006 consisted of U.S. government and agency securities, U.S. equities, U.S. corporate bonds, and mortgage backed securities.

4. CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2006:

	January 1, 2006	Additions	Disposals and Adjustments	December 31, 2006
Assets not being depreciated:				
Land	$ 986,316	$ -	$ (54,266)	$ 932,050
Assets being depreciated:				
Building	3,028,389	-	-	3,028,389
Equipment, furnishings and computer software	1,730,684	40,920	(37,344)	1,734,260
Total assets being depreciated	4,759,073	40,920	(37,344)	4,762,649
Less accumulated depreciation	1,120,537	341,512	(32,950)	1,429,099
Net assets being depreciated	3,638,536	(300,592)	(4,394)	3,333,550
Total capital assets	$ 4,624,852	$ (300,592)	$ (58,660)	$ 4,265,600

Capital assets consist of the following as of December 31, 2005:

	January 1, 2005	Additions	Disposals	December 31, 2005
Assets not being depreciated:				
Land	$ 986,316	$ -	$ -	$ 986,316
Assets being depreciated:				
Building	1,220,745	1,807,644	-	3,028,389
Equipment, furnishings and computer software	1,531,977	317,681	(118,974)	1,730,684
Total assets being depreciated	2,752,722	2,125,325	(118,974)	4,759,073
Less accumulated depreciation	936,971	289,098	(105,532)	1,120,537
Net assets being depreciated	1,815,751	1,836,227	(13,442)	3,638,536
Total capital assets	$ 2,802,067	$ 1,836,227	$ (13,442)	$ 4,624,852

5. PRIOR SERVICE CONTRIBUTIONS

Prior to January 1, 2000, an eligible county employee who was employed on January 1, 1990, but not employed at the Fund's inception and who had at least eight years of prior service could purchase a portion of such prior service. For those who elected to purchase such prior service, fifty percent of the dollar amount of the purchase as calculated by law is due upon retirement and the remaining amount is deducted from retirement benefit payments over a maximum period of four years.

The receivables for member prior service contributions shown on the accompanying statements of net assets represent the total amount, as of December 31, 2006 and 2005, that is due in future periods from retirees who have elected to purchase prior service.

An eligible county employee who opted out of the system prior to January 1, 2000 had the option to become a member within three months of the three year anniversary of the decision to opt out. Upon deciding to opt in to the system, such employee either purchased in total or began payroll deductions to purchase all or part of his prior creditable service plus interest over a maximum period of four years. Such amounts are recognized as contributions when received by the Fund.

6. RETIREMENT PLANS FOR FUND EMPLOYEES

All full-time employees of the Fund are eligible for participation in a defined contribution plan. The Fund contributes 6% of a participating employee's monthly gross salary to the plan. The contribution requirements of the plan are governed by the plan document, which may be amended by the Board of Directors. Employees do not contribute to the retirement plan. Employees become vested in contributions made by the Fund after 5 years of creditable service. Total contributions for the year ended December 31, 2006 and 2005 were $19,176 and $30,944, respectively.

All full-time employees are eligible for participation in an Internal Revenue Code (IRC) 457 deferred compensation plan upon their eligibility in the defined contribution plan.

7. DEFINED CONTRIBUTION AND DEFERRED COMPENSATION PLANS

Plan Description: Effective January 1, 2000, the Fund also administers a defined contribution plan and an IRC Section 457 deferred compensation plan. The plans were established to provide an opportunity for members of the pension plan to have additional retirement benefits. The plans' provisions and contribution requirements are established and may be amended only by action of the Missouri Legislature. Members of the pension plan are eligible to participate.

Contributions: Pension plan members who are not members of LAGERS are required to contribute 0.7% of gross compensation to the defined contribution plan. Contributions of $690,616 and $687,219 were made during the years ended December 31, 2006 and 2005, respectively. Participation in the 457 plan is voluntary. The level of contributions to the 457 plan is elected by the employee, subject to the limitations of IRC Sections 401(a) and 457. The Fund's Board of Directors determines if matching contributions from the pension plan trust funds for a calendar year will be made to the defined contribution plan accounts of those who participated in the 457 plan. The amount of any matching contribution is determined by the Board, and is limited to an amount not needed to keep the pension plan actuarially sound. The matching contribution is also limited to 50% of a non-LAGERS member's voluntary contributions (25% for LAGERS participants) to the 457 plan, up to 3% of the non-LAGERS member's compensation (1.5% for LAGERS participants). Members vest in the matching portion of contributions allocated to their respective accounts after five years of creditable service. Matching contributions for the years ended December 31, 2006 and 2005 were $1,070,115 and $978,612, respectively.

Administration: Maintenance of individual member accounts and custody of assets have been contracted to a third party administrator and investment custodian, respectively. Member contributions are sent directly to the third party administrator by the counties. Members can self-direct investments of their contributions and their respective share of matching contributions in a number of investment options. Separate trust funds are maintained for the defined contribution and 457 plan assets. Because the Fund does not hold the plans' assets and does not have significant administrative responsibilities, the plans' assets and changes in net assets are not reported in the Fund's financial statements.

8. RISK MANAGEMENT

The Fund is exposed to various risks of loss related to natural disasters, errors and omission, loss of assets, torts, etc. The Fund has chosen to cover such losses through the purchase of commercial insurance. There have been no significant insurance claims filed or paid during the past three years.

9. PENDING LITIGATION

A lawsuit was filed in October, 2006 by employees of one Missouri county's juvenile court who are seeking to be covered as members of CERF. CERF's position is that the current Missouri statutes exclude employees in this county's situation, and in similar situations for other Missouri counties, from being members of CERF. What the employees are seeking should not affect the amounts and presentations in the accompanying Statement of Plan Net Assets and Statements of Changes in Plan Net Assets as of and for the year ended December 31, 2006. However, if the plaintiffs were to prevail, it could affect the amount of the unfunded actuarial accrued liability of the plan as of December 31, 2006. The litigation is in the discovery stage. While management expects CERF to prevail, the outcome of this litigation cannot be predicted.

COUNTY EMPLOYEES' RETIREMENT FUND

REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2006

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b)-(a))/(c)
12/31/01	$ 113,924,658	$ 181,194,905	$ 67,270,247	62.9%	$ 236,175,955	28.5%
12/31/02	113,031,328	201,855,183	88,823,854	56.0%	256,619,955	34.6%
12/31/03	150,351,363	225,589,130	75,237,766	66.6%	277,155,462	27.1%
12/31/04	178,497,546	254,374,828	75,877,282	70.2%	290,944,956	26.1%
12/31/05	197,722,089	272,270,967	74,548,878	72.6%	301,692,241	24.7%
12/31/06	233,046,479	298,184,874	65,138,395	78.2%	317,301,810	20.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31	Annual Required Contribution	Actual Contribution	Percentage Contributed
2001	$ 11,431,775	$ 15,890,167	139.0%
2002	12,266,305	17,037,898	138.9%
2003	13,368,947	19,264,653	144.1%
2004	13,963,840	18,125,064	129.8%
2005	13,644,088	18,324,010	134.3%
2006	13,447,802	18,923,599	140.7%

NOTES TO THE REQUIRED SCHEDULES

Valuation Date	December 31, 2006
Actuarial Cost Method	Entry Age
Amortization Method	Level percent, closed period
Remaining Amortization Period	19 years
Asset Valuation Method	Market
Actuarial Assumptions:	
Investments rate of return	8%
Projected salary increases	4% for the first 15 years of membership and 3% thereafter
Cost-of-living adjustments	1%

COUNTY EMPLOYEES' RETIREMENT FUND

SCHEDULES OF ADMINISTRATIVE EXPENSES
For the Years Ended December 31, 2006 and 2005

	2006	2005
Personal services		
Staff salaries	$ 651,061	$ 706,952
Social security	48,806	53,449
Retirement	19,176	30,944
Insurance	95,726	108,251
Total personal services	814,769	899,596
Professional services		
Actuarial	156,761	156,321
Audit	47,657	37,320
Legal counsel	206,245	163,800
Legislative consultant	58,667	69,333
Plan design and implementation consultants	18,123	23,920
Total professional services	487,453	450,694
Communication		
Printing	13,792	22,825
Postage	14,458	24,481
Telephone	18,392	22,302
Total communication	46,642	69,608
Rentals		
Office space	-	28,389
Equipment leasing and maintenance	13,203	17,960
Total rentals	13,203	46,349
Depreciation	341,512	289,098
Miscellaneous		
Utilities	20,492	16,809
Board of directors expenses	13,027	9,543
Business risk insurance premiums	60,653	60,642
Staff development	16,233	21,778
Office	80,629	73,023
Property taxes	386	6,107
Total miscellaneous	191,420	187,902
Total administrative expenses	$ 1,894,999	$ 1,943,247

COUNTY EMPLOYEES' RETIREMENT FUND

SCHEDULES OF INVESTMENT EXPENSES
For the Years Ended December 31, 2006 and 2005

	2006	2005
Investment management expenses		
Domestic stocks	$ 537,164	$ 486,102
International stocks	238,644	204,463
Bonds	180,768	158,754
Real estate	66,114	14,145
Total investment management expenses	1,022,690	863,464
Other investment expenses		
Investment consultants	102,174	91,836
Investment custodian	95,677	135,684
Bank depository	7,250	7,449
Total other investment expenses	205,101	234,969
Total investment expenses	$ 1,227,791	$ 1,098,433
Securities lending expenses		
Borrower rebates	$ 3,716,498	$ -
Agent fees	43,093	-
Total securities lending expenses	$ 3,759,591	$ -